

Meridan Management Ltd.

Consolidated Financial Statements
for the Year Ended 31 December 2019
and Independent Auditor's Report

MERIDAN MANAGEMENT LTD.

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MERIDAN MANAGEMENT LTD.

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

Management is responsible for the preparation of the consolidated financial statements that present fairly the consolidated financial position of Meridan Management Ltd. (the "Company") and its subsidiaries (the "Group") as at 31 December 2019, and the consolidated results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IASB") ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

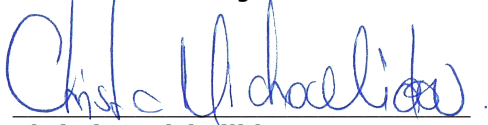
- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance; and
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with local legislation and accounting standards of jurisdictions where the Group's entities operate;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Detecting and preventing fraud and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2019 were approved by management on 11 March 2020.

On behalf of management:



Christina Michailidou
Director

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Meridan Management Ltd.:

Opinion

We have audited the accompanying consolidated financial statements of Meridan Management Ltd. and its subsidiaries (collectively, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019 and the consolidated statements of comprehensive income, cash flows, and changes in equity for the year then ended, and notes to the consolidated financial statements including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing adopted by the Republic of Cyprus ("ISA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (the "IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

AO Deloitte & Touche CP

11 March 2020

MERIDAN MANAGEMENT LTD.**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**
for the year ended 31 December 2019
(in millions of Russian roubles)

	Note	2019	2018 (represented)*
Revenue	7	142,880	108,724
Cost of sales	8	(96,919)	(74,838)
Gross profit		45,961	33,886
Selling, general and administrative expenses	9	(27,879)	(21,501)
Other operating income		334	259
Share of profit of associates, net		39	86
Operating profit		18,455	12,730
Interest income		194	87
Interest expense		(1,040)	(205)
Foreign exchange loss, net		(74)	(343)
Profit before tax		17,535	12,269
Income tax expense	10	(4,362)	(3,141)
Profit for the year and total comprehensive income for the year		13,173	9,128
Basic and diluted earnings per share		0.26	0.18

* See Note 6 for details of represented items within the consolidated statement of comprehensive income.

The Group transitioned to IFRS 16 using the modified retrospective approach under which the comparative information was not restated.

The accompanying notes on pages 8-38 are an integral part of these consolidated financial statements.

MERIDAN MANAGEMENT LTD.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2019
(in millions of Russian roubles)

	Note	31 December 2019	31 December 2018*
Assets			
Non-current assets			
Property, plant and equipment	12	10,882	9,108
Goodwill	5	178	-
Other intangible assets	13	510	1,577
Capital advances		1,055	662
Right-of-use assets	14	6,220	-
Operating lease deposits		-	594
Investments in associates		85	130
Total non-current assets		18,930	12,071
Current assets			
Inventories	15	19,365	15,085
Right-of-use assets	14	1,943	-
Receivables and other financial assets	16	1,036	1,033
Prepayments		247	158
Value added tax receivable		166	1,049
Loans receivable		92	-
Cash and cash equivalents	17	11,881	5,882
Total current assets		34,730	23,207
Total assets		53,660	35,278
Equity and liabilities			
Equity			
Share capital	18	1	1
Additional paid-in capital	18	154	154
Retained earnings		11,298	13,082
Total equity		11,453	13,237
Non-current liabilities			
Lease liabilities	20	2,496	-
Deferred tax liabilities	10	346	583
Total non-current liabilities		2,842	583
Current liabilities			
Loans and borrowings	19	5,006	501
Lease liabilities	20	5,306	-
Payables and other financial liabilities	21	19,827	17,901
Advances received		453	292
Income tax payable		2,415	1,410
Tax liability, other than income taxes		532	840
Dividends payable	18	5,030	-
Accrued expenses		796	514
Total current liabilities		39,365	21,458
Total liabilities		42,207	22,041
Total equity and liabilities		53,660	35,278

* The Group transitioned to IFRS 16 using the modified retrospective approach under which the comparative information was not restated.

The accompanying notes on pages 8-38 are an integral part of these consolidated financial statements.

MERIDAN MANAGEMENT LTD.

CONSOLIDATED STATEMENT OF CASH FLOWS for the year ended 31 December 2019 (in millions of Russian roubles)

	Note	2019	2018*
Cash flows from operating activities			
Profit before tax		17,535	12,269
<i>Adjustments for:</i>			
Depreciation and amortisation	12,13	8,695	1,464
Shrinkage and inventory obsolescence expenses	8,15	1,118	1,037
Changes in allowance for trade and other receivables		(13)	-
Share of profit of associates, net		(39)	(86)
Interest income		(194)	(87)
Interest expense		1,040	205
Foreign exchange loss, net		74	343
Operating cash flows before changes in working capital		28,216	15,152
Increase in inventories		(5,335)	(4,595)
(Increase)/decrease in receivables and other financial assets		(4)	1,034
Increase in prepayments		(89)	-
Decrease/(Increase) in VAT receivable		883	(86)
Increase in operating lease deposits		-	(80)
Increase in payables and other financial liabilities		1,938	4,261
Increase in advances received		161	112
Decrease in tax liabilities, other than income tax		(308)	(66)
Increase in accrued expenses		326	152
Net cash flows generated from operations		25,788	15,884
Interest paid		(1,099)	(240)
Interest received		194	-
Income tax paid		(3,459)	(2,015)
Net cash flows from operating activities		21,424	13,629
Cash flows from investing activities			
Purchase of property, plant and equipment and capital advances		(3,831)	(3,129)
Purchase of intangible assets		(365)	(1,088)
Proceeds from sale of property, plant and equipment		39	32
Acquisition of business, net of cash acquired	5	(195)	-
Dividends received from associates		84	46
Loans issued		(248)	(3,985)
Proceeds from repayment of loans issued		150	358
Net cash flows used in investing activities		(4,366)	(7,766)
Cash flows from financing activities			
Proceeds from loans and borrowings		12,600	3,831
Repayment of loans and borrowings		(8,100)	(6,830)
Lease payments		(6,689)	-
Dividends paid		(8,039)	(3,248)
Net cash flows used in financing activities		(10,228)	(6,247)
Total cash (used in)/from operating, investing and financing activities		6,830	(384)
Effect of exchange rate fluctuations on cash and cash equivalents		(831)	164
Net increase/(decrease) in cash and cash equivalents		5,999	(220)
Cash and cash equivalents at the beginning of the year	17	5,882	6,102
Cash and cash equivalents at the end of the year	17	11,881	5,882

* The Group transitioned to IFRS 16 using the modified retrospective approach under which the comparative information was not restated.

Non-cash transactions:

In 2018 the Group issued loans to its shareholders and related parties for the total amount of RUB 3,985 million. Out of this amount, RUB 358 million were repaid to the Group in cash. In June 2018 the Group, its debtors and shareholders entered into a series of agreements under which the outstanding loans receivable in the total amount of RUB 3,911 million were settled against dividends payable by the Group at that date to its shareholders.

In June 2018 a supplier of the Group issued bearer promissory note in amount of RUB 187 million that was used to redeem amounts due by this supplier to the Group. Subsequently the Group used that promissory note in the total amount of RUB 187 million to repay a part of its dividends payable to the shareholders.

There were no non-cash transactions in the year ended 31 December 2019.

The accompanying notes on pages 8-38 are an integral part of these consolidated financial statements.

MERIDAN MANAGEMENT LTD.**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**
for the year ended 31 December 2019
(in millions of Russian roubles)

	Note	Share capital	Additional paid-in capital	Retained earnings	Total
At 1 January 2018		1	154	10,587	10,742
Profit for the year		-	-	9,128	9,128
Total comprehensive income for the year, net of tax		-	-	9,128	9,128
Dividends	18	-	-	(6,633)	(6,633)
At 31 December 2018		1	154	13,082	13,237
Effect of adoption of IFRS 16	4	-	-	(1,217)	(1,217)
At 1 January 2019 Restated		1	154	11,865	12,020
Profit for the year		-	-	13,173	13,173
Total comprehensive income for the year, net of tax		-	-	13,173	13,173
Dividends	18	-	-	(13,740)	(13,740)
At 31 December 2019		1	154	11,298	11,453

The accompanying notes on pages 8-38 are an integral part of these consolidated financial statements.

MERIDAN MANAGEMENT LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(in millions of Russian roubles)*

1. GENERAL INFORMATION

Meridan Management Ltd. (the "Company") was incorporated in May 2008 in accordance with the Business Companies Act of the British Virgin Islands. The address of the Company's registered office is Craigmuir Chambers, P.O. Box 71, Road Town, Tortola, British Virgin Islands ("BVI").

Meridan Management Ltd. together with its subsidiaries (the "Group") is the leading CIS multi-price value retailer, operating under the trade mark "Fix Price". The Group's retail operations are conducted through a chain of convenience stores, located in the Russian Federation. The Group is also engaged in wholesale operations by servicing a number of franchisees that operate in distant regions of the Russian Federation, as well as Belarus, Georgia, Kazakhstan, Kyrgyzstan and Latvia.

The consolidated financial statements have been prepared under the historical cost convention except of the revaluation of financial assets and financial liabilities at fair value through profit or loss. The measurement basis and principal accounting policies of the Group are set out below and have been applied consistently throughout the consolidated financial statements.

Meridan Management Ltd. is the holding entity of the Group and there is no consolidation that takes place above the level of this Company.

As of 31 December 2019 and 2018 the Group is controlled by a group of independent physical persons who individually don't have control over the Group.

The consolidated financial statements cover the year ended 31 December 2019.

These consolidated financial statements were authorised for release by the Director of the Company on 11 March 2020.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) ("IFRS").

The consolidated financial statements are presented in Russian roubles, which is also the functional currency of the Company and its subsidiaries, and all values are rounded to the nearest million RUB, except when otherwise indicated.

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings, together with the Group's share of the net assets and results of associated undertakings, for the year ended 31 December 2019.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee),
- Exposure, or rights, to variable returns from its involvement with the investee, and,
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangements with the other vote holders of the investee,
- Rights arising from other contractual arrangements, and,
- The Group's voting rights and potential voting rights.

MERIDAN MANAGEMENT LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) (in millions of Russian roubles)

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

The principal activities of the Group's significant subsidiaries and the effective ownership percentages are as follows:

Company name	Country of incorporation	Principal activity	Note	Ownership interest 31 December 2019	Ownership interest 31 December 2018
Kolmaz Holdings Ltd	Cyprus	Intermediate holding company		100%	100%
Wikolia Investment Ltd	Cyprus	Intermediate holding company		100%	100%
Best Price LLC	Russia	Retail and wholesale operations		100%	100%
Best Price Kazakhstan TOO	Kazakhstan	Retail operations	5	100%	-

Going concern

After consideration of forecasts and budgets covering the next 12 month period, the directors have determined that it is appropriate to continue to use the going concern basis for production of these consolidated financial statements, which implies the realisation of assets and settlement of liabilities in the normal course of business.

Revenue

The revenue is recognised by the Group in such a way to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

Revenue from the sale of goods is recognised on a 5-step approach as introduced in IFRS 15:

- The Group identifies the contract with the customer;
- The Group identifies the performance obligations in the contract;
- The transaction price is determined by the Group;
- The transaction price is allocated to the performance obligations in the contracts;
- Revenue is recognised only when the Group satisfies a performance obligation.

The Group recognises revenue when or as a performance obligation is satisfied.

Store retail revenue is recognised at the initial point of sale of goods to customers, when the control over the goods have been transferred to the buyer.

The Group has a loyalty card scheme that allows customers to earn bonus points for each purchase made, which can be used to obtain discounts on subsequent purchases. Such bonus points entitle customers to obtain a discount that they would not be able to obtain without preliminary purchases of goods (i.e. material right). Thus, the promised discount represents a separate performance obligation. Deferred revenue with respect to bonus points is recognised upon the initial sale. Revenue from the loyalty programme is recognised upon the exchange of bonus points by customers. Revenue from bonus points that are not expected to be exchanged is recognised in proportion to the pattern of rights exercised by the customer.

MERIDAN MANAGEMENT LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) **(in millions of Russian roubles)**

Wholesale revenue includes:

- Sales of goods to franchisees, which is recognised at the moment of transfer of goods to franchisees at the warehouse;
- Revenue, stemming from franchise agreements, such as initial fees and sales-based royalties. Initial fees are recognised as revenues when performance of all initial services and other obligations required of the franchisor (such as assistance with site selection, assortment planning, etc.) has been substantially accomplished. If the initial fee is collectible over an extended period and there is a significant uncertainty that it will be collected in full, the fee is recognised as cash instalments are received. Revenue from sales-based royalties is earned when a franchisee sells goods in its retail stores and is recognised as and when those sales occur.

Selling, general and administrative expenses

Selling, general and administrative expenses contain all running costs of the business, except those relating to inventory (which are expensed through cost of sales), tax, interest, foreign exchange gain/(loss), share of profit/(loss) in associates and other comprehensive income. Warehouse costs are included in this caption.

Elements which are unusual and significant may be presented as a separate line item in the statement of comprehensive income.

Property, plant and equipment

Property, plant and equipment is carried at historical cost less accumulated depreciation and accumulated impairment losses.

Cost comprises purchase price and directly attributable costs. Unless significant or incurred as part of a refit programme, subsequent expenditure will usually be treated as repairs or maintenance and expensed to the income statement.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised.

Freehold land is not depreciated. For all other property, plant and equipment, depreciation is calculated on a straight line basis to allocate cost, less residual value of the assets, over their estimated useful lives as follows.

Repair and maintenance expenditure is expensed as incurred. Major renewals and improvements are capitalised, and the replaced assets are derecognised. Gains and losses arising from the retirement of property, plant and equipment are included in the profit or loss on disposal.

Leasehold improvements are capitalised when it is probable that future economic benefits associated with the improvements will flow to the Group and the cost can be measured reliably. Capitalised leasehold improvements are depreciated over their useful life.

Depreciation

Depreciation is provided on all other items of property, plant and equipment and the effect is to write off the carrying value of items by equal instalments over their expected useful economic lives. It is applied at the following rates:

	Useful lives in years
Buildings	37-50
Leasehold improvements	10
Equipment and other assets	2-7

Residual values and useful lives are reviewed annually and adjusted prospectively, if appropriate.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is expensed in the statement of comprehensive income when the asset is derecognised.

Intangible assets

Lease rights

Lease rights acquired prior to IFRS 16 adoption (i.e. 1 January 2019) represented rights for favourable operating leases. These rights were initially recognised at cost and were amortised using the straight-line method over 10 years. As discussed below, lease rights were derecognised upon adoption of IFRS 16.

Other intangible assets

Other intangible assets acquired separately, including computer software, are measured on initial recognition at cost comprising the purchase price and any directly attributable costs of preparing the asset for use.

Following initial recognition, assets are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation begins when an asset is available for use and is calculated on a straight line basis to allocate the cost of the asset over its estimated useful life ranging from 2 to 10 years.

Investments in associates

Associates are those entities over which the Group has significant influence but which are neither subsidiaries nor interests in joint ventures. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over these policies. Investments in associates are recognised initially at cost and subsequently accounted for using the equity method. Changes resulting from the profit or loss generated by the associate are reported in "share of profits of associates" in the consolidated income statement and therefore affect net results of the Group.

However, when the Group's share of losses in an associate equals or exceeds its interest in the associate the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the investor resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Amounts reported in the consolidated financial statements of associates have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, the Group estimates the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use, where CGU (a cash-generating unit) is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. It is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

MERIDAN MANAGEMENT LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) **(in millions of Russian roubles)**

The Group bases its impairment calculation on detailed budgets and forecasts which are prepared separately for each of the Group's CGU's to which the individual assets are allocated. These budgets and forecast calculations cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations, including impairment of inventories, are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

For assets excluding those for which annual testing is required, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount.

A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement.

Inventories

Inventories are valued at the lower of cost and net realisable value, after making due allowance for shrinkage, obsolete and slow moving items. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs to sell. The costs of purchase of inventories comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), and transport, handling and other costs directly attributable to the acquisition of inventories. Supplier allowances that do not represent reimbursement of specific, incremental and identifiable costs incurred to promote a supplier's goods are also included in cost of inventories (as a reduction of it). Cost of inventory is determined on the weighted average basis.

Taxation

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Group operates and generates taxable income. Tax is recognised in the income statement (the Group does not have taxes related to items recognised in other comprehensive income or directly in equity).

Deferred tax

Deferred tax is provided using the liability method on tax loss carry forwards and temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(in millions of Russian roubles)

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- Deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits*, respectively;
- Liabilities or equity instruments related to the share-based payment arrangements of the acquiree or share-based payment arrangements of the Company, entered into to replace the share-based payment arrangements of the acquiree, are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date; and
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Goodwill is measured as the excess of the value of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net acquisition-date value of identifiable assets acquired exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised in profit or loss as a bargain purchase gain.

When the acquired assets did not constitute a business such transactions are accounted for on a carryover basis, which results in the historical book value of assets and liabilities of the acquired entity being combined with that of the Group.

Financial instruments

Financial assets and financial liabilities are recognised when a Group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial instrument and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (including all fees and amounts paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Fair value of financial instruments

Fair value of financial instruments which are traded in the active market is estimated at each reporting date on the basis of market quotations or dealer quotes without any deduction for transaction costs. For financial instruments which are not traded in the active market, fair value of the instrument is estimated using valuation techniques that include use of data on market transactions; data on current fair value of other similar instruments; discounted cash flow analyses or other valuation techniques.

The Group uses the following hierarchy to determine and disclose methods of fair value measurement of financial instruments:

- Level 1: quoted prices for identical assets and liabilities determined in active markets (unadjusted);
- Level 2: techniques where all used inputs that significantly affect the fair value are observable directly or indirectly;
- Level 3: techniques where used inputs that significantly affect the fair value are not based on observable market data.

Financial assets

Financial assets are classified into the following specified categories:

- Those to be measured subsequently at fair value (either through OCI, or through profit or loss); and
- Those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset.

Transaction costs of financial assets carried at FVPL are expensed in profit or loss. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) **(in millions of Russian roubles)**

Debt instruments

Subsequent measurement of debt instruments depends on the group's business model for managing the asset and the cash flow characteristics of the asset. The major part of the Group's debt instruments are presented by trade accounts and loans receivable and are measured at amortised cost applying the effective interest rate as these instruments are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest. Interest income from these financial assets is included in interest income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/ (losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, cash deposits and highly liquid investments with original maturities, from the date of acquisition, of three months or less, that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Derivative financial instruments

The Group uses derivative financial instruments (forward currency contracts) to reduce its foreign currency exposure.

Derivative financial instruments are recognised at fair value. The fair value is derived using updated bank quotations. The Group does not use hedge accounting for these derivatives. As a result, such derivative financial instruments are treated as financial assets and liabilities at fair value through profit or loss. Gains and losses recognised for the changes in fair value of forward contracts are included in the foreign exchange (loss)/gain line item in the consolidated statement of comprehensive income.

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on financial assets that are measured at amortised cost (represented by cash and cash equivalents, trade and other receivables). The amount of expected credit losses (ECL) is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade and other receivables. The expected credit losses on these financial assets are estimated based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) ***(in millions of Russian roubles)***

The Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

1. The financial instrument has a low risk of default;
2. The debtor has a strong capacity to meet its contractual cash flow obligations in the near term; and
3. Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

The carrying value of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of a provision account. When a trade receivable is considered uncollectible, it is written off against the provision account. Subsequent recoveries of amounts previously written off are credited against the provision account. Changes in the carrying amount of the provision account are recognised in profit or loss.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risk and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralized borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

On derecognition of a financial asset other than in its entirety (e.g. when an entity retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the control is retained), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) *(in millions of Russian roubles)*

Financial liabilities

Classification as debt or equity

Debt and equity instruments issued by Group entities are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instrument

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Group's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Financial liabilities

All financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVPL. Financial liabilities are classified as at FVPL when the financial liability is (i) contingent consideration of an acquirer in a business combination, (ii) held for trading or (iii) it is designated as at FVPL. Otherwise financial liabilities are measured subsequently at amortised cost using the effective interest method.

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, canceled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit and loss.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get for their intended use or sale, are added to the cost of those assets, until such time when the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Value added tax

The Russian tax legislation permits settlement of value added tax ("VAT") on a net basis.

VAT is payable upon invoicing and delivery of goods, performing work or rendering services, as well as upon collection of prepayments from customers. VAT on purchases, even if they have not been settled at the reporting date, is deducted from the amount of VAT payable.

Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) *(in millions of Russian roubles)*

Equity

Equity comprises the following:

- Share capital represents the nominal value of equity shares;
- Additional paid-in capital represents contributions to the property of the Group made by shareholders;
- Retained earnings represents retained profits.

Ordinary shares are classified as equity. Contributions to the property of the Group made by shareholders both in cash or other assets provided to the Group are included in additional paid-in capital within the equity.

Dividends

Dividends are recognised as a liability and deducted from equity when they are declared before or on the reporting date. Dividends are disclosed in the consolidated financial statements when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorised for issue.

State pension plan

The Group's companies contribute to the state pension, medical and social insurance funds on behalf of all its current employees. Any related expenses are recognised in the consolidated profit and loss as incurred.

Provisions

Provisions are recognised when a present obligation (legal or constructive) exists as a result of a past event and where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount can be reliably estimated. Provisions are discounted where the time value of money is considered to be material.

Leases

Accounting policy applicable after 1 January 2019

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases of property or equipment and leases of low value assets. For these leases, the Group recognises the lease payments on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the incremental borrowing rate of the Group. Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) ***(in millions of Russian roubles)***

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group re-measures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is re-measured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is re-measured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lessee transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

Variable rents that do not depend on an index or rate are not included in the measurement the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line "Selling, general and administrative expenses" in profit or loss.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has used this practical expedient.

Accounting policy applicable before 1 January 2019

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets even if that right is not explicitly specified in an arrangement.

The economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset.

All other leases are regarded as operating leases and the payments made under them are charged to the statement of comprehensive income on a straight line basis over the lease term.

Some of the Group's operating leases require the Group to advance certain amount of cash to the lessor at the time of entering into lease. Such cash advance is held by a lessor and serves as a security deposit which can be claimed by a lessor should the Group fail to make a regular lease payment. A security deposits are offset against a scheduled operating lease payments or returned to the Group at the end of the lease agreement. The Group accounts for operating lease deposits at cost less any accumulated impairment loss and classifies these as a separate line item in the consolidated statement of financial position.

3. CRITICAL JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on management's experience and other factors including expectations of future events that are believed to be reasonable when the financial information was prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Critical accounting estimates

Useful lives of items of property, plant and equipment

The Group's property, plant and equipment are depreciated using the straight-line method over their estimated useful lives which are determined based on the Group's management business plans and operational estimates, related to those assets.

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end and if expectations differ from previous estimates the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Lease term of contracts

In determining the lease term the Group considers various factors, including but not limiting to the extension options that are reasonably certain to be executed and termination options that are reasonably certain not to be executed. When considering those factors, management takes into account, amongst other things, the Group's investment strategy, relevant investment decisions, the residual useful life of the related major leasehold improvements and costs directly or indirectly relating to the extension or termination of the lease.

Incremental borrowing rates for calculation of lease liability

Incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The Group derives incremental borrowing rates from both internal and external data sources applying significant judgment in such calculations.

Inventories of goods for resale provisions

The Group provides for estimated inventory shrinkage on the basis of historical shrinkage as a percentage of cost of sales. This provision is adjusted at the end of each reporting period to reflect the historical trend of the actual physical inventory count results (Note 8).

Tax legislation

The Group operates in various jurisdictions, including the Russian Federation, Republic of Kazakhstan, the Republic of Cyprus and the British Virgin Islands. The tax, currency and customs legislation of those jurisdictions is subject to varying interpretations and tax authorities may challenge interpretations of tax legislation taken by the Group. The Group's contingent liabilities with regards to taxation are disclosed in Note 23.

Critical judgements in applying accounting policies

The Group also makes certain judgements, apart from those involving estimations, in the process of applying accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements are described below.

Asset acquisitions

The Group holds a non-controlling interest in some of its franchisees. As discussed in Note 25, in 2018 the Group entered into a series of agreements with one of its franchisees for the acquisition of lease rights, trade equipment and inventories relating to 133 stores operated by the franchisee. Management applied judgement in accounting for the transaction as an acquisition of assets rather than as a business combination on the basis that no existing processes were transferred to the Group in the transaction and the acquired assets did not constitute a business.

4. NEW OR REVISED INTERNATIONAL FINANCIAL REPORTING STATEMENTS
Adoption of New Standards and Interpretations

The accounting policies applied by the Group are consistent with those of the financial year ended as at 31 December 2018, except for the adoption of the new standards and interpretations described below.

From 1 January 2019, the Group has adopted the following new and amended standards and interpretations issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB in the consolidated financial information:

- IFRS 16 *Leases*;
- IFRIC 23 *Uncertainty Over Income Tax Treatments*;
- Amendments to IFRS 9 *Prepayment Features with Negative Compensation*;
- Amendments to IAS 19 *Employee Benefits*;
- Annual Improvements to IFRSs 2015-2017 Cycle.
- Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures

No new standards and interpretations adopted in 2019 other than IFRS 16 *Leases* had a material impact on the consolidated financial information of the Group for the year ended 31 December 2019.

IFRS 16 Leases

As at 1 January 2019 the Group has adopted IFRS 16 *Leases* (as issued by the IASB in January 2016).

IFRS 16 introduced new or amended requirements with respect to lease accounting. It introduced significant changes to the lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability at the lease commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. The impact of the adoption of IFRS 16 on the Group's consolidated financial statements is described below.

The Group has applied IFRS 16 using a modified retrospective approach. The comparative information for the year ended 31 December 2018 has not been restated in accordance with provisions of IFRS 16 *Leases*.

Impact of the new definition of a lease

The Group used the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to leases entered into or modified before 1 January 2019.

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The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group applies the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract). When preparing for the first-time application of IFRS 16, the Group carried out an implementation project. The project results presented that the new definition in IFRS 16 would not change significantly the scope of contracts that meet the definition of a lease for the Group.

Impact on Lessee Accounting

IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance-sheet.

Applying IFRS 16, for all leases (except as noted below), the Group:

- (a) Recognises right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of future lease payments;
- (b) Recognises depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss; and
- (c) Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated statement of cash flows.

Lease incentives (e.g. free rent period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive liability, amortised as a reduction of rental expense on a straight-line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36 *Impairment of Assets*. This replaces the previous requirement to recognise a provision for onerous lease contracts.

For low-value assets the Group has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within Selling, general and administrative expenses in the consolidated statement of profit or loss and other comprehensive income.

Financial impact of initial application of IFRS 16

At the date of transition to IFRS 16 *Leases* the Group recognised lease liabilities (short-term and long-term) in amount of RUB 8,487 million. Previously the Group did not recognise any lease liabilities because all lease contracts entered into by the Group were classified as operating leases according to IAS 17 *Leases*. The amount of lease liabilities recognised was determined based on the present value of the future minimum lease payments at the transition date. The Group used incremental borrowing rate in determining the present value of future payments.

The weighted average incremental borrowing rate at 1 January 2019 was 9.9% per annum.

As at 1 January 2019 the Group also recognised right-of-use assets in amount of RUB 9,062 million. Right-of-use assets are depreciated on a straight-line basis over the lease term which ranges from 11 to 60 months. Lease rights of RUB 1,357 million (included previously in intangible assets) were derecognised.

As at 1 January 2019 operating lease deposits of RUB 575 million related to previous operating leases were derecognised.

Deferred tax assets increased by RUB 140 million because of the deferred tax impact of the changes in assets and liabilities.

The net impact of these adjustments had been adjusted to retained earnings of RUB 1,217 million.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) (in millions of Russian roubles)

Under IFRS 16, lessees must present:

- Payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability as part of operating activities;
- Cash paid for the interest portion of lease liability to be classified as per the Group's policy under IAS 7 (the Group has opted to include the interest paid as part of operating activities); and;
- Cash payments for the principal portion of lease liability as part of financing activities.

Under IAS 17, all lease payments on operating leases were presented as part of cash flows from operating activities.

The adoption of IFRS 16 has no impact on net cash flows.

As at 31 December 2018 the Group's outstanding short and long-term lease agreements were cancellable. IAS 17 requires disclosing operating lease commitments only for non-cancellable leases, while under IFRS 16 the Group is also required to include in lease term periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option. Due to this the Group does not provide a reconciliation between lease commitment disclosure at 31 December 2018 and the lease liabilities recognised as a result of the adoption of IFRS 16 at 1 January 2019.

New and revised IFRS Standards in issue but not yet effective

- IFRS 17 *Insurance Contracts*;
- IFRS 10 and IAS 28 (amendments) *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*;
- Amendments to IFRS 3 *Definition of a Business*;
- Amendments to IAS 1 and IAS 8 *Definition of Material*;
- *Annual Improvements to IFRSs (2010–2012 Cycle Amendments to IAS 1) Classification of Liabilities as Current or Non-Current*;
- Amendments to IFRS 9, IAS 39 and IFRS 7 *Interest Rate Benchmark Reform and its Effects on Financial Reporting*;
- *Conceptual Framework Amendments to References to the Conceptual Framework in IFRS Standards*.

The new and revised IFRS Standards listed above will not have a material impact on the financial statements of the Group in future periods.

5. ACQUISITION OF TOO BEST PRICE KAZAKHSTAN

On 25 December 2019, the Group acquired 100 per cent of the issued share capital of TOO Best Price Kazakhstan, obtaining control of the entity. TOO Best Price Kazakhstan was a Group franchisee in Kazakhstan. TOO Best Price Kazakhstan was acquired in order for the Group to enter the Kazakhstan market.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) (in millions of Russian roubles)

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed at the date of acquisition are as set out in the table below.

Property, plant and equipment	10
Right-of-use assets	82
Receivables and other financial assets	73
Inventory	63
Lease liabilities	(82)
Payables and other financial liabilities	(87)*
Fair value of identifiable assets acquired and liabilities assumed, net	59
Goodwill	178
Total consideration	237
Satisfied by:	
Cash	237
Total consideration transferred	237
Net cash outflow arising on acquisition:	
Cash consideration	237
Less: cash and cash equivalent balances acquired	(42)
	195

* Including RUB 51 million of trade payables in favour of the Group.

The goodwill of RUB 178 million arising from the acquisition consists of a fee for entrance to the perspective Kazakhstan market. Synergies attached to expanding their operations in Kazakhstan market. None of the goodwill is expected to be deductible for income tax purposes. Acquisition-related costs (included in administrative expenses) are immaterial.

TOO Best Price Kazakhstan contributed immaterial revenue and profit to the Group for the period between the date of acquisition and the reporting.

6. RECLASSIFICATION OF COMPARATIVE INFORMATION

In order to improve presentation of certain line items and for better comparability of the financial statements with the Group's industry peers the management of the Group decided to make the following minor presentation changes in the Consolidated Statement of Comprehensive Income for the year ended 31 December 2018.

The sale of waste materials and advertising activities which are not related to principal activities of the Group were presented in other operating income. Certain other operating income previously presented on the net basis in selling, general and administrative expenses was reclassified to other operating income for the year ended 31 December 2018.

The cumulative effect of reclassifications of corresponding information for the year ended 31 December 2018 is presented below:

Consolidated Statement of Comprehensive Income	As previously reported	Reclassification	As reclassified
Revenue	108,763	(39)	108,724
Other operation income	206	53	259
Selling, general and administrative expenses	(21,487)	(14)	(21,501)

In addition, the Group also made a presentation change with regards to share of profits of associates in the consolidated statement of comprehensive income. Currently this line item is presented above Operating Profit subtotal whereas previously share of profits of associates was presented below Operating Profit. The presentation change reflects management's view of these activities (i.e. the Group's associates are represented by its franchisees) as operating activities and aligns presentation adopted in the consolidated statement of cash flows. Comparative information for the year ended 31 December 2018 was reclassified accordingly.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) (in millions of Russian roubles)

7. REVENUE

Revenue for the years ended 31 December 2019 and 2018 consisted of the following:

	<u>2019</u>	<u>2018</u>
Retail revenue	123,194	94,092
Wholesale revenue	<u>19,686</u>	<u>14,632</u>
	<u>142,880</u>	<u>108,724</u>

8. COST OF SALES

Cost of sales for the years ended 31 December 2019 and 2018 consisted of the following:

	<u>2019</u>	<u>2018</u>
Cost of goods sold	93,557	72,092
Transportation and handling costs	2,244	1,709
Inventory write-down due to shrinkages and write off to net realisable value	<u>1,118</u>	<u>1,037</u>
	<u>96,919</u>	<u>74,838</u>

9. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended 31 December 2019 and 2018 consisted of the following:

	<u>2019</u>	<u>2018</u>
Staff costs	13,361	9,085
Amortisation of right-of-use assets	6,921	-
Other depreciation and amortisation	1,772	1,476
Bank charges	1,258	790
Operating lease expenses	1,160	7,291
Security services	1,107	901
Advertising costs	645	453
Repair and maintenance costs	625	503
Utilities	501	522
Other expenses	<u>529</u>	<u>480</u>
	<u>27,879</u>	<u>21,501</u>

Staff costs include statutory social security and pension contributions (defined contribution plan) in amount of RUB 2,067 million and RUB 1,263 million during the years ended 31 December 2019 and 2018, respectively.

In the year ended 31 December 2019 Operating lease expenses mainly relate to leases of low-value items for which the recognition exemption is applied and variable lease costs that are expended as incurred.

10. TAXATION

	<u>2019</u>	<u>2018</u>
Current tax expense	4,457	2,968
Deferred tax expense/(benefit)	<u>(95)</u>	<u>173</u>
Income tax expense	<u>4,362</u>	<u>3,141</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) (in millions of Russian roubles)

The Russian statutory income tax rate was 20% during the years ended 31 December 2019 and 2018. Income generated in other jurisdictions was subject to a different tax rate.

Income before taxation for financial reporting purposes is reconciled to tax expense as follows:

	<u>2019</u>	<u>2018</u>
Profit before tax	17,535	12,269
Theoretical tax expense at 20%, being statutory rate in Russia	(3,507)	(2,454)
(Expenses)/income subject to income tax at rates different from 20%	(902)	(475)
Non-deductible items	47	(62)
Withholding tax on intra-group dividends	-	(150)
Income tax expense	(4,362)	(3,141)

Withholding tax is applied to dividends distributed by the Group's Russian subsidiary at the rate of 5% on gross dividends declared; such tax is withheld at source by the respective subsidiary and is paid to the Russian tax authorities at the same time when the payment of dividend is effected.

Deferred tax assets and liabilities as of 31 December 2019 and 2018 are calculated for all temporary differences under the balance sheet method using the Russian statutory tax rate of 20%.

Movements in the deferred tax assets and liabilities for the year ended 31 December 2019 were as follows:

	<u>31 December 2018</u>	<u>Derecognition upon adoption of IFRS 16 (Note 4)</u>	<u>Charged to profit or loss</u>	<u>31 December 2019</u>
Tax effects of deductible temporary differences				
Trade and other payables	-	-	58	58
Accrued expenses	-	-	65	65
Intangible assets	(133)	140	-	7
Deferred tax assets	(133)	140	123	130
Tax effects of taxable temporary differences				
Inventories	(50)	-	(8)	(58)
Property, plant and equipment	(342)	-	(67)	(409)
Investments in associates	(25)	-	16	(9)
Trade and other receivables	(39)	-	39	-
Other	6	-	(6)	-
Deferred tax liabilities	(450)	-	(26)	(476)
Net deferred tax liabilities	(583)	140	97	(346)

Movements in the deferred tax assets and liabilities for the year ended 31 December 2018 were as follows:

	<u>31 December 2017</u>	<u>Charged to profit or loss</u>	<u>31 December 2018</u>
Tax effects of deductible temporary differences			
Trade and other payables	13	(13)	-
Deferred tax assets	13	(13)	-
Tax effects of taxable temporary differences			
Inventories	(33)	(17)	(50)
Property, plant and equipment	(276)	(66)	(342)
Intangible assets	(77)	(56)	(133)
Investments in associates	(17)	(8)	(25)
Trade and other receivables	-	(39)	(39)
Other	9	26	6
Deferred tax liabilities	(394)	(160)	(583)
Net deferred tax liabilities	(381)	(173)	(583)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) (in millions of Russian roubles)

As of 31 December 2019 and 2018 the Group has not recognised a deferred tax liability in respect of taxable temporary differences associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

11. KEY MANAGEMENT REMUNERATION

The total compensation relating to the key management personnel of the Group amounted to RUB 1,063 million and RUB 385 million during the years ended 31 December 2019 and 2018, respectively. The amount of compensation includes all applicable taxes and contributions. All compensation represents short-term employee benefits as defined in IAS 19 *Employee Benefits*.

12. PROPERTY, PLANT AND EQUIPMENT

Movements in the carrying amount of property, plant and equipment during the years ended 31 December 2019 and 2018 were as follows:

	Land and buildings	Trade and other equipment	Leasehold improve- ments	Other	Assets under construction and uninstalled equipment	Total
Cost						
At 1 January 2018	1,890	5,264	4,476	57	10	11,697
Additions					2,594	2,594
Transfers	23	1,481	1,076	9	(2,589)	-
Disposals	-	(146)	(128)	(1)	(1)	(276)
At 31 December 2018	1,913	6,599	5,424	65	14	14,015
Additions					3,518	3,518
Acquisition of a subsidiary (Note 5)					10	10
Transfers	686	1,644	1,187	20	(3,537)	-
Disposals	-	(165)	(116)	(3)	-	(284)
At 31 December 2019	2,599	8,078	6,495	82	5	17,259
Accumulated depreciation and impairment						
At 1 January 2018	145	2,164	1,375	33	-	3,717
Depreciation charge	19	816	485	6	-	1,326
Disposals	-	(96)	(40)	-	-	(136)
At 31 December 2018	164	2,884	1,820	39	-	4,907
Depreciation charge	23	976	566	18	-	1,583
Disposals	-	(109)	(3)	(1)	-	(113)
At 31 December 2019	187	3,751	2,383	56	-	6,377
Net book value						
At 31 December 2018	1,749	3,715	3,604	26	14	9,108
At 31 December 2019	2,412	4,327	4,112	26	5	10,882

Buildings primarily represent distribution centers that are owned by the Group.

At 31 December 2018 land and buildings in amount of RUB 832 million have been pledged as collateral for bank loans (refer to Note 19). During the financial year ended 31 December 2019 bank loan was repaid in full and land and buildings have been released from pledge.

MERIDAN MANAGEMENT LTD.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**
*(in millions of Russian roubles)***13. INTANGIBLE ASSETS**

Movements in the carrying amount of intangible assets during the years ended 31 December 2019 and 2018 were as follows:

	<u>Lease rights</u>	<u>Software, patents and other</u>	<u>Total</u>
Cost			
At 1 January 2018	570	228	798
Additions	959	130	1,089
Disposals	(6)	-	(6)
At 31 December 2018	1,523	358	1,881
Derecognition upon adoption of IFRS 16 (Note 4)	(1,523)	-	(1,523)
Additions	-	355	355
Disposals	-	-	-
At 31 December 2019	-	713	713
Accumulated amortisation and impairment			
At 1 January 2018	81	85	166
Amortisation charge	85	53	138
Disposals	-	-	-
At 31 December 2018	166	138	304
Derecognition upon adoption of IFRS 16 (Note 4)	(166)	-	(166)
Amortisation charge	-	65	65
At 31 December 2019	-	203	203
Carrying amount			
At 31 December 2018	1,357	220	1,577
At 31 December 2019	-	510	510

Additions to lease rights in 2018 are represented by lease rights purchased by the Group from one of its franchisees (Note 25).

14. RIGHT-OF-USE ASSETS

The Group leases retail premises, offices and warehouses (hereinafter "leased premises and buildings") with lease term within the range from 1 to 5 years. Movements in the carrying amount of right-of-use assets were as follows:

	<u>Leased premises and buildings</u>
Cost	
1 January 2019	9,062
New lease contracts and modification of existing lease contracts	5,926
Acquisition of a subsidiary (Note 5)	81
Lease prepayments	93
Disposals	(212)
At 31 December 2019	14,950

MERIDAN MANAGEMENT LTD.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**
(in millions of Russian roubles)

	Leased premises and buildings
<i>Accumulated depreciation and impairment</i>	
At 1 January 2019	-
Depreciation expense	(6,999)
Disposals	212
Impairment	-
At 31 December 2019	(6,787)
<i>Carrying amount</i>	
At 1 January 2019	9,062
At 31 December 2019	8,163
	For the twelve months ended 31 December 2019
<i>Amounts recognised in profit and loss</i>	
Depreciation expense on right-of-use assets	6,921
Interest expense on lease liabilities	698
Impairment	-
Expenses relating to variable lease payments not included in the measurement of the lease liability	1,119

No impairment of right-of-use assets was recognised in the consolidated statement of profit and loss and other comprehensive income for the twelve months ended 31 December 2019.

Some of the property leases for which the Group is the lessee contain variable lease payment terms that are linked to sales generated from the leased retail stores. Variable payment terms are used to link rental payments to store cash flows and reduce fixed cost. Overall the variable payments constitute 13% approx. of the Group's entire lease payments. The variable payments depend on sales of particular stores and consequently on the overall economic development over the next few years. The Group expects that variable rent expenses are expected to continue to present a similar proportion of retail store sales in future years.

The total cash outflow for leases inclusive of interest accounted for under IFRS 16 in the consolidated financial statements amount to RUB 7,390 million for the twelve months ended 31 December 2019.

15. INVENTORIES

The Group inventory balance comprised of merchandise inventories. Amount of inventory write-off due to shrinkages and write-down to net realisable value during the years ended 31 December 2019 and 2018 are disclosed in Note 8.

MERIDAN MANAGEMENT LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) (in millions of Russian roubles)

16. RECEIVABLES AND OTHER FINANCIAL ASSETS

	<u>31 December 2019</u>	<u>31 December 2018</u>
Trade receivables from franchisees, net of allowance	760	666
Forward foreign exchange contracts (Note 24)	-	194
Other receivables, net of allowance	<u>276</u>	<u>173</u>
	<u>1,036</u>	<u>1,033</u>

In 2018 some of the Group's other receivables were redeemed through a non-cash transaction. The details are disclosed in the comparative consolidated statement of cash flows for the year ended 31 December 2018 in the section entitled "Non-cash transactions".

The Group measures the allowance for losses on trade receivables on an ongoing basis in an amount equal to expected lifetime credit losses. Expected credit losses on trade receivables are measured based on the historical defaults and an analysis of the current financial position of the debtor, adjusted for debtor-specific factors, the general industry-specific economic conditions in which the debtor operates and assessment of current and projected development of this conditions as at the reporting date.

The following table summarises the changes in the allowance for expected credit losses on trade receivables and other receivables:

	<u>2019</u>	<u>2018</u>
Balance at beginning of the year	(28)	(20)
Additional utilisation/(allowance) recognised on trade receivables and other receivables	13	(8)
Write-offs against allowance for doubtful other receivables	-	-
Balance at the end of the year	<u>(15)</u>	<u>(28)</u>

17. CASH AND CASH EQUIVALENTS

	<u>31 December 2019</u>	<u>31 December 2018</u>
Bank current accounts – Euro and USD	1,635	1,183
Bank current accounts – Russian roubles	534	2,270
Cash in transit – Russian roubles	1,315	1,345
Cash in hand – Russian roubles	229	209
Deposits – USD	5,602	-
Deposits – Russian roubles	1,398	619
Dual currency instruments	1,166	159
Other cash and cash equivalents (RUB and EUR/USD instruments)	<u>2</u>	<u>97</u>
	<u>11,881</u>	<u>5,882</u>

Cash in transit represents cash collected by banks from the Group's stores and not deposited in bank accounts as at 31 December. As of 31 December 2019 Russian rouble denominated deposit bank accounts in the amount of RUB 1,398 million had interest rates of 5.51-5.70% and a 9-10 day maturity period. As of 31 December 2018 Russian rouble denominated deposit bank accounts in the amount of RUB 618 million had interest rates of 4.81% and a 11 day maturity period.

As of 31 December 2019 USD denominated deposit bank accounts in the amount of RUB 5,602 million had interest rates of 1.45-2.00% and a 30-182 day maturity period (deposits over 90 days are callable on demand).

Dual currency instruments (DCI) are denominated in Euro and USD with synthetic (risk and interest) coupon rates of 1.5-3.38% and 35-60 day maturity period. If at maturity the USD/EUR currency rate is beyond a specified limit DCI is paid back by bank in USD.

Russian rouble, USD and Euro denominated balances in current bank accounts are normally interest free.

MERIDAN MANAGEMENT LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) (in millions of Russian roubles)

18. EQUITY

Ordinary shares

Each ordinary share ranks pari passu with each other ordinary share and each share carries one vote.

	<u>31 December 2019</u>	<u>31 December 2018</u>
Allotted, called up and fully paid ordinary shares of USD 1 each	50,000	50,000
	<u>50,000</u>	<u>50,000</u>

Additional paid-in capital

No contributions into equity were made by shareholders of the Group in 2019 and 2018.

Dividends

Interim dividends for 2019 of RUB 275 thousand per share, amounting to a total dividend of RUB 13,740 million were announced in October 2019. Interim dividends for 2018 of RUB 132.66 thousand per share, amounting to a total dividend of RUB 6,633 million were announced in September 2018.

During 2018 the Group's dividends payable were partially redeemed through a series of non-cash transactions. The details are disclosed in the comparative consolidated statement of cash flows for the year ended 31 December 2018 in the section entitled "Non-cash transactions".

19. LOANS AND BORROWINGS

Terms and conditions in respect of loans and borrowings as of 31 December 2019 are detailed below:

Source of financing	<u>Currency</u>	<u>Maturity date</u>	<u>Interest rate at 31 December 2019</u>	<u>31 December 2019</u>
Bank loans (unsecured)	RUB	2020	6.95-7.44%	<u>5,006</u>

Terms and conditions in respect of loans and borrowings as of 31 December 2018 are detailed below:

Source of financing	<u>Currency</u>	<u>Maturity date</u>	<u>Interest rate at 31 December 2018</u>	<u>31 December 2018</u>
Bank loans (A)	RUB	2019	9.9%	<u>501</u>

(A) At 31 December 2018 this bank loan was secured by the pledge of land and buildings (Note 12).

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	<u>01 January 2019</u>	<u>Financing cash flows (i)</u>	<u>Other changes (ii)</u>	<u>31 December 2019</u>
Bank loans	501	4,500	5	<u>5,006</u>

MERIDAN MANAGEMENT LTD.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**
(in millions of Russian roubles)

	<u>01 January 2018</u>	<u>Financing cash flows (i)</u>	<u>Other changes (ii)</u>	<u>31 December 2018</u>
Bank loans	3,506	(2,999)	(6)	501
Non-bank loans	8	-	(8)	-
	<u>3,514</u>	<u>(2,999)</u>	<u>(14)</u>	<u>501</u>

- (i) The cash flows from bank loans and other borrowings make up the net amount of proceeds from borrowings and repayments of borrowings in the consolidated statement of cash flows.
- (ii) Other changes include interest accruals and payments.

The Group's loan agreements contain certain restrictive covenants, including requirements to comply with specified financial ratios. The Group's failure to comply with restrictive covenants may result in a claim for immediate repayment of the corresponding debt. As of 31 December 2019 and 31 December 2018 the Group was in compliance with all financial covenants stipulated by its loan agreements.

20. LEASE LIABILITIES

As at 31 December 2019 lease liabilities comprised the following:

	<u>31 December 2019</u>
Minimum lease payments, including:	
Current portion (less than 1 year)	5,811
More than 1 to 5 years	2,729
Over 5 years	-
Total minimum lease payments	<u>8,540</u>
Less amount representing interest	(738)
Present value of net minimum lease payments, including:	
Current portion (less than 1 year)	5,306
More than 1 to 5 years	2,496
Over 5 years	-
Total present value of net minimum lease payments	<u>7,802</u>
Less current portion of lease obligations	(5,306)
Non-current portion of lease obligations	<u>2,496</u>

The following table summarises the changes in the lease liabilities:

Balance as at 1 January 2019	<u>8,487</u>
Interest expense on lease liabilities	698
Lease payments	(7,390)
New lease contracts and modification of existing lease contracts	5,926
Acquisition of a subsidiary (Note 5)	81
Balance as at 31 December 2019	<u>7,802</u>

The Group's lease contracts include typical restrictions and covenants common for local business practice such as responsibility of the Group for regular maintenance and repair of the lease assets and its insurance, redesign and conduction of permanent improvements only with the consent of the lessor, and use of leased asset in accordance with current legislation.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) (in millions of Russian roubles)

In determining the fair value of lease liabilities management of the Group have assumed that the carrying amount of lease liabilities approximates their fair value as at 31 December 2019, as it reflects changes in market conditions, takes into account the risk premium and the time value of money.

The Group does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the Group's finance function.

21. PAYABLES AND OTHER FINANCIAL LIABILITIES

Payables as of 31 December 2019 and 2018 consisted of the following:

	31 December 2019	31 December 2018
Trade payables	19,232	17,695
Forward foreign exchange contracts (Note 24)	142	-
Deferred revenue	125	81
Other payables	328	125
	19,827	17,901

Trade payables are normally settled not later than their 120 days term.

22. COMMITMENTS

Capital commitments

The Group has contractual capital commitments not provided within the Group financial statements as at 31 December 2019 in the amount of RUB 158 million (as at 31 December 2018 – RUB 0 million). The commitment relates to warehouse premises under construction.

23. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

Operating environment of the Group

The Group sells products that are sensitive to changes in general economic conditions that impact consumer spending. Future economic conditions and other factors, including sanctions imposed, consumer confidence, employment levels, interest rates, consumer debt levels and availability of consumer credit could reduce consumer spending or change consumer purchasing habits. A general slowdown in the Russian economy or in the global economy, or an uncertain economic outlook, could adversely affect consumer spending habits and the Group's operating results.

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy has been negatively impacted by high volatility in oil prices and sanctions imposed on Russia by a number of countries. The rouble interest rates remained high. The combination of the above resulted in reduced access to capital, a higher cost of capital and uncertainty regarding economic growth, which could negatively affect the Group's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

Legal proceedings

In the ordinary course of business, the Group may be a party to various legal and tax proceedings, and be subject to claims. In the opinion of management, the Group's liability, if any, in all pending litigation, other legal proceeding or other matters, will not have a material effect on the financial condition, results of operations or liquidity of the Group.

Taxation

The Group's main subsidiary, from which the Group's income is derived, operates in Russia. Russian tax, currency and customs legislation can be interpreted in different ways and is susceptible to frequent changes. The interpretation made by management of the legislation in question as applied to the operations and activities of the Group may be challenged by the relevant regional or federal authorities.

In addition, certain amendments to tax legislation entered into force from 2015 which are aimed at combating tax evasion through the use of low-tax jurisdictions and aggressive tax planning structures. In particular, those amendments include definitions of the concepts of beneficial ownership and tax residence of legal entities at their actual place of business, and an approach to the taxation of controlled foreign companies.

These changes, as well as recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in past may be challenged as not having been in compliance with Russian tax laws applicable at the relevant time. In particular, the Supreme Court issued guidance to lower courts on reviewing tax cases providing a systematic roadmap for anti-avoidance claims, and it is possible that this will significantly increase the level and frequency of tax authorities' scrutiny. As a result, significant additional taxes, penalties and interest may be levied on the Group.

As at 31 December 2019 management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained. Management estimates that the Group's possible exposure in relation to the aforementioned tax risks will not exceed 15% of the Group's total assets as at 31 December 2019.

24. FINANCIAL RISK MANAGEMENT

The Group uses various financial instruments, including bank loans, cash, derivatives and various items, such as trade receivables and trade payables that arise directly from its operations.

The main risks arising from the Group's financial instruments are market risk, credit risk and liquidity risk. The Group reviews and agrees policies for managing each of these risks and they are summarised below.

The existence of these financial instruments exposes the Group to a number of financial risks, which are described in more detail below.

Market risk

Market risk encompasses three types of risk, being currency risk, fair value interest rate risk and commodity price risk. Commodity price risk is not considered material to the business as the Group's sensitivity to commodity prices is insignificant. The Group's exposure to fair value interest rate risk is minimal as the Group does not enter floating rate loan contracts.

Currency risk

The Group is exposed to translation and transaction foreign exchange risk arising from exchange rate fluctuation on its purchases from overseas suppliers. In relation to translation risk, this is considered material to the business as amounts owed in foreign currency are medium term of up to 120 days and are of a relatively significant nature. A proportion of the Group's purchases are priced in Chinese Yuans and in order to manage the Group's exposure to currency risk, the Group enters into forward foreign currency contracts. No transactions in derivatives are undertaken of a speculative nature.

As of 31 December 2019 the fair value of liabilities related to forward foreign exchange contracts utilised for currency risk management purposes amounted to RUB 142 million and recognised within Payables and other financial liabilities (as of 31 December 2018 RUB 194 million was recognised within Receivables and other financial assets). During 2019 the loss from forward foreign exchange contracts amounted to RUB 688 million (2018: RUB 39 million gain), and was included in the foreign exchange (loss)/gain line item in the consolidated statement of comprehensive income.

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100% of the Group's sales to retail and wholesale customers, except for immaterial sales of Best Price Kazakhstan (note 5), are priced in Russian roubles, therefore there is no currency exposure in this respect.

Foreign currency sensitivity

The carrying amount of the Group's foreign currency denominated monetary assets and liabilities as at 31 December 2019 and 2018 is as follows:

	Assets		Liabilities	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
USD	6,264	-	5,030	-
CNY	1	-	4,692	4,573
EUR	2,167	1,312	-	-

The impact on the Group's profit before tax and retained earnings is largely due to changes in the fair value revaluation of creditors held on account with our Chinese Yuan suppliers.

The following table demonstrates the sensitivity (net of tax) to a reasonably possible change in the Chinese Yuan period end exchange rates with all other variables held constant.

		31 December 2019	31 December 2018
Change in RUB/CNY	+10%	(469)	(457)
Change in RUB/CNY	-10%	469	457

The following table demonstrates the sensitivity (net of tax) to a reasonably possible change in the Euro period end exchange rates with all other variables held constant.

		31 December 2019	31 December 2018
Change in RUB/EUR	+10%	217	131
Change in RUB/EUR	-10%	(217)	(131)

The following table demonstrates the sensitivity (net of tax) to a reasonably possible change in the USD period end exchange rates with all other variables held constant.

		31 December 2019	31 December 2018
Change in RUB/USD	+10%	123	-
Change in RUB/USD	-10%	(123)	-

These calculations have been performed by taking the year end translation rate used on the accounts and applying the change noted above. The balance sheet valuations are then directly calculated.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group's principal financial assets are cash and cash equivalents and trade receivables. Credit risk is further limited by the fact that all of sales retail transactions are made through the store registers, direct from the customer at the point of purchase, leading to a zero trade receivables balance from retail sales.

Therefore the principal credit risk arises from the Group's trade receivables. In order to manage credit risk, the Group sets limits for wholesale customers (franchisees) based on their payment history. New wholesale customers typically pay in advance. Credit limits are reviewed by franchisees managers on a regular basis in conjunction with debt ageing and collection history. Provisions against bad debts are made where appropriate.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) (in millions of Russian roubles)

The credit risk on liquid funds (see the table below) is managed by the Group's finance function. The management believes that credit risk on investments of surplus funds is limited as the counterparties are financial institutions with adequate credit ratings assigned by international credit rating agencies.

The table below shows the balances that the Group has with its major banks as at the balance sheet date:

Bank	Country of incorporation	Rating	Carrying amount as at 31 December 2019
RCB	Cyprus	B1	1,832
LGT	Switzerland	Aa2	6,768
Alfa Bank	Russia	Ba2	1,398
VTB Bank	Russia	Baa3	292
Other	Kazakhstan	n/a	48
Total			10,338

Liquidity risk

Any impact on available cash and therefore the liquidity of the Group could have a material effect on the business as a result.

The Group's borrowings are subject to quarterly banking covenants against which the Group has had significant headroom to date with no anticipated issues based upon forecasts made. Short term flexibility is achieved via the Group's rolling credit facility. The following table shows the maturity of financial liabilities grouping based on their remaining period at the balance sheet date. The amounts disclosed are the contractual undiscounted cash flows. These are all amortised cost:

	On demand or less than 1 year	1 to 5 years	Over 5 year	Total
As of 31 December 2019				
Loans and borrowings	5,006	-	-	5,006
Trade and other payables	19,702	-	-	19,702
	24,708	-	-	24,708
As of 31 December 2018				
Loans and borrowings	501	-	-	501
Trade and other payables	17,820	-	-	17,820
	18,321	-	-	18,321

The maturity analysis of the lease liabilities is disclosed in Note 20.

Fair value

The fair value of the financial assets and liabilities of the group are not materially different from their carrying value.

Fair values of cash and cash equivalents, trade and other receivables and trade and other payables approximate their carrying amounts due to their short maturity.

Foreign exchange contracts are recognised at fair value and classified as Level 2 instruments. The fair value data is provided by banks, based on the updated quotations source (e.g. Bloomberg).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) (in millions of Russian roubles)

25. RELATED PARTY TRANSACTIONS

In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. Management considers that the Group has appropriate procedures in place to identify, account for and properly disclose transaction with related parties.

Related parties include immediate and ultimate shareholders of the Group, franchisees where the Group has a non-controlling ownership stake, as well other related parties under common control.

Transactions with related parties for the year ended 31 December 2019 and for the year ended 31 December 2018:

	<u>2019</u>	<u>2018</u>
Associates:		
Sales of goods	2,935	5,329
Royalty fees	120	215
Other*:		
Dividends declared	(11,745)	(5,992)
Payment of dividends	(7,054)	(2,344)
Loans issued	(110)	(3,985)
Repayment of loans receivable	107	358

In 2018 some the Group's trade and other receivables were redeemed through a series of non-cash transactions. The details are disclosed in the comparative consolidated statement of cash flows for the year ended 31 December 2018 in the section entitled "Non-cash transactions".

At 31 December 2019 and at 31 December 2018 the outstanding balances with related parties were as follows:

	<u>31 December 2019</u>	<u>31 December 2018</u>
Associates:		
Trade and other payables	-	(472)
Trade and other receivables	15	200
Advances from customers	(133)	(105)
Other*:		
Dividends payable	4,329	-

* Other related parties comprise immediate and ultimate shareholders of the Company as well as entities controlled by the shareholders.

Purchase of assets from associate

In 2018 the Group entered into an agreement with one of its associates and franchisees, LLC "Best Price Novosibirsk", for the acquisition of store leases, trade equipment and inventories relating to substantially all stores operated by the franchisee. Overall in 2018 the Group acquired 133 stores from the franchisee for cash consideration of RUB 1,538 million. The carrying amounts of assets recognised by the Group related to this purchase were as presented.

	<u>Cost</u>
Property, plant and equipment (trade equipment)	162
Intangible assets (store lease acquisition costs)	965
Inventory	411
Total purchases from related parties	<u>1,538</u>

For details on the remuneration of key management personnel please refer to Note 11.

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(in millions of Russian roubles)

26. CAPITAL MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure. While the Group has not established any formal policies with regards to debt to equity proportions, the Group reviews its capital needs periodically to determine actions to balance its overall capital structure through new share issue, return of capital to shareholders as well as securing new debt or redemption of existing debt.

27. POST BALANCE SHEET EVENTS

There were no significant events after the reporting date.